

Decision 04-11-018 November 19, 2004

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of Sierra Pacific Power Company (U 903-E) for Authority to Update its Energy Cost Adjustment Clause ("ECAC") Billing Factors Effective October 1, 2004.

Application 04-05-004
(Filed May 3, 2004)

**OPINION APPROVING SIERRA PACIFIC POWER COMPANY'S
APPLICATION FOR AUTHORITY TO UPDATE ITS
ENERGY COST ADJUSTMENT CLAUSE BILLING FACTORS**

Summary

This decision approves Sierra Pacific Power Company's (Sierra) Application (A.) 04-05-004 to update its energy cost adjustment clause (ECAC) billing factors, and recover projected fuel and purchased power costs. The approved change in ECAC billing factors will increase rates by approximately \$8.3 million, or 14.8 percent, for Sierra's California retail customers.

Background

On May 3, 2004, Sierra filed A.04-05-004 to recover projected fuel and purchased power costs of approximately \$8.3 million for the period ending September 30, 2005, through an update of ECAC billing factors (Application). The proposed ECAC changes would increase Sierra's rates for California retail customers by about 14.8 percent. Sierra requested that the rate increase be effective October 1, 2004, and proposed an expedited schedule for the proceeding.

Sierra explains that its ECAC mechanism was suspended in June 1996,¹ but reinstituted in 2004² to recover fuel and purchased power costs. Sierra filed Advice Letter (AL) 304-E,³ effective January 16, 2004, which reestablished an average ECAC rate of \$0.04500 per kilowatt-hour, and included a Preliminary Statement ECAC tariff. On March 22, 2004, Sierra requested an extension of time from April 1, 2004, to May 3, 2004, to file its ECAC application, and on April 5, 2004, the Executive Director granted Sierra's extension request.

On June 4, 2004, the Office of Ratepayer Advocates (ORA) protested Sierra's application noting the potential for rate shock to Sierra's customers, and the need to resolve discovery issues prior to holding a prehearing conference (PHC). At a PHC held July 14, 2004, ORA explained that further data requests to resolve discovery issues were pending, necessitating a second PHC. At a second PHC on August 4, 2004, ORA indicated it would submit testimony by August 16, 2004 primarily addressing rate design, and that ORA did not anticipate protesting the amount of the ECAC increase sought by Sierra.

On August 16, 2004, ORA submitted its Report on Sierra's Application (Report). ORA's Report states that ORA reviewed Sierra's Sales and ECAC billing factors forecasts and Sierra's operations forecast and found these reasonable. ORA also agrees with Sierra that the existing rate design be left unchanged. However, ORA states it found an error in Sierra's calculations of

¹ See Decision (D.) 96-05-059, 66CPUC 2nd, 294, 299.

² See D.04-01-027, *mimeo.*, p. 22.

³ Authorized in D.04-01-027, *mimeo.*, p. 24.

approximately \$13,000, and that Sierra has reduced its rate increase from \$8,291,000 to \$8,278,000 to reflect this error.

On August 24, 2004, Sierra confirmed that it concurs with ORA's Report,⁴ and agreed to adjust its requested revenue requirement downwards to \$8,278,000.

Discussion

There are no further disputed issues between Sierra and ORA regarding the Application. Sierra's acceptance of ORA's proposed changes to the Application means that the proposed ECAC increase of \$8.3 million, less the \$13,000 correction, has been reviewed and Sierra and ORA concur on the amount of the increase and the proposed rate design.

We have reviewed Sierra's Application and ORA's Report, and agree that the amount of the proposed increase is reasonable. Sierra's Application shows the proposed increase is based on the estimated cost of fuel and purchased power for the twelve-month period ending September 30, 2005, less the current fuel and purchased power offset. Sierra estimates total system fuel and purchased power costs of \$498,520,000, and total system sales of 9,609,786 megawatt-hours (MWH), or approximately \$0.05186 per MWH.⁵ Total

⁴ Letter from David M. Norris, Sierra's Assistant General Counsel, to the Assigned Administrative Law Judge (ALJ).

⁵ Application, Volume 2, Forecast Report, Table 4-2. Total Fuel and Purchase Power costs are developed in Chapter 2 for Sierra's generation plants and purchased power sources using the PROMOD IV simulation program. Sales forecasts are based upon the 2003 5-year budget forecast that is used internally by Sierra and updated annually. (Chapter 4, p. 4-1 and Table 4-1).

estimated California system sales are estimated at 568,267 MWH,⁶ resulting in estimated fuel and purchased power costs of approximately \$33,869,000. This fuel and purchased power cost is offset by the current ECAC rate of \$0.045 per MWH, or \$25,572,000, resulting in Sierra's estimated ECAC increase of approximately \$8.3 million.

We also agree with Sierra and ORA that Sierra's proposed rate design is consistent with the previously adopted rate design,⁷ and should be adopted for purposes of this ECAC increase.

We will adopt the revised ECAC increase proposed by ORA, and Sierra's proposed rate design. Sierra will be directed to file tariffs reflecting the adopted ECAC increase with the Commission's Energy Division. Rates will be effective beginning on the first billing period after the filing of tariffs, subject to Energy Division approval.

Comments on the Draft Decision

The draft decision of the ALJ in this matter was mailed to the parties in accordance with Section 311(g)(1) of the Public Utilities Code and Rule 77.7 of the Rules of Practice and Procedure. Comments were filed on October 25, 2004, by ORA. ORA recommends that the Commission adopt the draft decision in its entirety without change.

Assignment of Proceeding

Geoffrey F. Brown is the Assigned Commissioner and Bruce DeBerry is the assigned ALJ in this proceeding.

⁶ *Id.*, Table 4-1.

⁷ *See* D.04-01-027, pp. 16-21.

Findings of Fact

1. Sierra concurred with ORA's revised ECAC increase, resulting in an ECAC revenue reduction of \$13,000.
2. Sierra's proposed rate design to recover the ECAC increase is consistent with our previously adopted rate design.
3. There are no further disputed issues between Sierra and ORA regarding this Application.
4. Total estimated ECAC California system fuel and purchased power costs are approximately \$33.9 million.
5. The current California system ECAC rate provides approximately \$25.6 million in ECAC revenues.

Conclusions of Law

1. Sierra's proposed ECAC increase of \$8,278,000 based on California system estimated fuel and purchased power costs is reasonable and is adopted.
2. Sierra's proposed rate design is consistent with our previously adopted rate design, and is adopted.

O R D E R

IT IS ORDERED that:

1. Sierra Pacific Power Company shall file tariffs within thirty days after the effective date of this decision to recover the Energy Cost Adjustment Clause revenue increase adopted herein.
2. Tariffs shall be approved by the Energy Division.

3. Rates shall be effective on the beginning of the first billing period following approval by the Energy Division.

4. Application 04-05-004 is closed.

This order is effective today.

Dated November 19, 2004, at San Francisco, California.

MICHAEL R. PEEVEY
President

CARL W. WOOD
LORETTA M. LYNCH
GEOFFREY F. BROWN
SUSAN P. KENNEDY
Commissioners